

March 01, 2023

Rucha Engineers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based / Term Loan	187.35	182.48	[ICRA]A- (Stable); reaffirmed
Long Term – Fund Based / Cash Credit	61.00	59.00	[ICRA]A- (Stable); reaffirmed
Short Term – Non Fund Based Facilities	0.00	15.00	[ICRA]A2+; reaffirmed
Short Term – Unallocated Limits	21.65	13.52	[ICRA]A2+; reaffirmed
Total	270.00	270.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings for Rucha Engineers Private Limited (REPL or the company) continues to factor in the track record of the company in the auto ancillary sector, the experienced team of promoters along with its established relationships with original equipment manufacturers (OEMs). ICRA also notes the healthy wallet share of REPL in the components supplied to OEMs, and the company's diversification efforts to expand its product and customer portfolio which is expected to support revenue growth as well as diversification over the medium term. The company continued to demonstrate a comfortable capital structure (gearing of 1.2 times as on March 31, 2022) along with adequate coverage indicators (interest cover of 6.9 times) during FY2022.

The ratings, however, remain constrained by the ongoing debt-funded capital expenditure (capex) being undertaken by the company, which is expected to moderate REPL's coverage metrics to some extent over the near term. Return metrics also remain moderate, on account of the ongoing capex. ICRA also notes that the company continues to exhibit a high degree of customer concentration risk with 72% of FY2022 revenues derived from its top three customers, although efforts ongoing to add new customers in automotive and non-automotive spaces would help mitigate this over the medium term. In line with the nature of the industry it operates in, REPL also remains vulnerable to the cyclicity in the automobile industry, although steps taken to diversify into non-automotive segment should help mitigate this risk over the long term.

The Stable outlook on the long-term rating reflects ICRA's expectations that REPL will continue to benefit from the established track record of its promoters in the auto ancillary sector and maintain a stable business and financial risk profile.

Key rating drivers and their description

Credit strengths

Experienced promoters with established track record and relationships with OEMs – REPL's management has extensive experience in the auto ancillary business and enjoys established relationships with major auto OEMs in the domestic automotive space. Such established track record and repeat orders from its key customers provide REPL with sufficient revenue visibility and also augurs well for its business development initiatives.

Healthy wallet-share within the components supplied to the OEMs; diversification into new products and segments to support growth over the medium term – REPL enjoys a majority share of business in most of the components supplied to its key customers. It caters to several renowned OEMs in the passenger vehicle, two-wheeler and three-wheeler segments, enjoying healthy market share with its clients. Furthermore, the company's efforts to diversify into new products and segments

along with increasing focus on exports are expected to support its revenue growth and diversification prospects over the medium term.

Comfortable financial profile – The company’s financial profile remains strong as reflected by its comfortable capital structure with gearing at 1.2 times as on March 31, 2022 (1.0 times as on March 31, 2021). The coverage indicators also remain comfortable, with interest coverage of 6.9 times (PY¹ – 5.6 times), TD/OPBIDTA at 2.1 times (PY – 2.5 times), and NCA/TD of 35% as on March 31, 2022 (PY – 30%) following healthy accruals generation and stable profitability. While the company has sizable debt repayment obligations over the near term, healthy accruals and adequate liquidity should help it in servicing its debt obligations in a timely manner.

Credit challenges

Ongoing debt-funded capex to exert pressure cash flows in the near term – REPL would be incurring capex of ~Rs. 80 crore in FY2023, primarily towards capacity expansion and modernisation of plants. This capex would be funded through a mix of bank borrowings and internal accruals. While this capex is expected to further support REPL’s business prospects, it is likely to increase the debt levels and exert pressure on the cash flows in the near term. Nevertheless, considering that a major portion of capex would be towards acquiring a manufacturing unit which the company has been using on lease so far, risks related to its ramp-up and revenue visibility remains minimal.

High customer concentration risk; vulnerability to the cyclicity in the automobile industry – REPL’s top customer, viz. Bajaj Auto Limited (BAL), contributed 49% to its revenues in FY2022 (42% in H1 FY2023). Although the company has taken tangible efforts to diversify the customer base, the dependence on BAL for majority of revenues renders the business operations vulnerable to BAL’s performance. Further, the business is susceptible to the inherent cyclicity associated in the automobile industry, especially in the three-wheeler industry. Nevertheless, REPL’s focus on adding new customers and products, especially those in the non-automotive space, should help mitigate these risks to some extent over the medium to long term.

Modest return indicators – The slowdown in demand seen in the 2W and 3W segments post the pandemic, along with sizable debt-funded capex recently undertaken by the company has pressurised asset turnover and, hence, resulted in modest return indicators. Given sizable capex lined up for the present fiscal, these are expected to remain range-bound over the near term.

Liquidity position: Adequate

The company’s liquidity profile is **adequate**, supported by healthy cash flow from operations of Rs. 60-65 crore annually, and unencumbered cash and liquid investments of Rs. 3.2 crore, along with unutilized bank lines which stood at ~Rs. 4.0 crore as on September 30, 2022. REPL also had sanctioned and undrawn term loans of ~Rs. 30 crore available as on December 31, 2022, providing further comfort to the overall liquidity. Against these sources of liquidity, REPL’s capital expenditure outlay is ~Rs. 80.0 crore for FY2023 and Rs. 25 crore in FY2024, and the quantum of long-term debt repayment remains ~Rs. 30-35 crore per annum over the near term.

Rating sensitivities

Positive factors – Notable improvement in the profitability and coverage indicators while sustaining the scale of operations and ensuring adequate returns from the ongoing capex with further improvement in the liquidity position could lead to a rating upgrade. Specific credit metrics that could lead to an upgrade of rating include TD/OPBIDTA below 1.8 times and RoCE above 16.0% on a sustained basis.

Negative factors – Lower-than-anticipated revenues or weakening of performance of its key customers leading to strain on cash flows, profitability or liquidity could trigger a rating downgrade. Inability to maintain adequate financial flexibility or lack

¹ Previous year

of adequate returns or weakening of credit metrics such as TD/OPBITDA above 2.3 times on a sustained basis could be other negative factors.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Rucha Engineers Private Limited.

About the company

REPL was established in 1998 at Waluj MIDC in Aurangabad (Maharashtra). It has press, fabrication as well as stamping facilities and manufactures chassis, chassis components, silencers, jacks, heavy duty sheet metal components, along with assemblies, chain cover, petrol tanks for two-wheeler, three-wheeler and passenger vehicles. It has a paint shop for surface coating (two-coat, single bake liquid painting). Its primary customers are Bajaj Auto Limited (BAL) as well as reputed automobile OEMs like TVS Motors Limited, Tata Motors Passenger Vehicles Limited, and the Volkswagen Group. The company operates 10 manufacturing facilities, across five locations in India. It also has a DSIR approved R&D centre and an in-house tool room for prototype designing of products.

Key financial indicators

REPL	FY2021 Audited	FY2022 Audited
Operating Income (Rs. crore)	583.0	1,052.8
PAT (Rs. crore)	9.0	17.7
OPBDIT/OI (%)	9.0%	7.5%
PAT/OI (%)	1.5%	1.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.1
Total Debt/OPBDIT (times)	2.5	2.1
Interest Coverage (times)	5.6	6.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: REPL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					March 1, 2023	January 20, 2022 July 23, 2021	November 5, 2020	November 19, 2019	
1	Term Loan	Long-term	182.48	140.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
2	Cash Credit	Long-term	59.00	41.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
3	Non Fund Based	Short-term	15.00	4.75	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	
4	Unallocated	Short-term	13.52	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based / Term Loan	Simple
Long Term – Fund Based / Cash Credit	Simple
Short Term – Non Fund Based Facilities	Very Simple
Short Term – Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan – 1	Jan-2018	NA	Feb-2024	16.51	[ICRA]A- (Stable)
NA	Term Loan – 2	Feb-2022	NA	Feb-2027	8.03	[ICRA]A- (Stable)
NA	Term Loan – 3	Apr-2022	NA	Apr-2027	45.00	[ICRA]A- (Stable)
NA	Term Loan – 4	Apr-2020	NA	Apr-2023	18.80	[ICRA]A- (Stable)
NA	Term Loan – 5	Apr-2020	NA	Apr-2023	2.20	[ICRA]A- (Stable)
NA	Term Loan – 6	Dec-2017	NA	Sep-2028	6.02	[ICRA]A- (Stable)
NA	Term Loan – 7	Mar-2019	NA	Sep-2028	16.09	[ICRA]A- (Stable)
NA	Term Loan – 8	Sep-2021	NA	Oct-2030	10.88	[ICRA]A- (Stable)
NA	Term Loan – 9	Apr-2020	NA	Apr-2024	5.56	[ICRA]A- (Stable)
NA	Term Loan – 10	Aug-2021	NA	Aug-2027	45.00	[ICRA]A- (Stable)
NA	Term Loan – 11	Apr-2021	NA	Apr-2026	8.00	[ICRA]A- (Stable)
NA	Term Loan – 12	Apr-2020	NA	Apr-2023	0.39	[ICRA]A- (Stable)
NA	Working Capital Facilities	NA	NA	NA	43.00	[ICRA]A- (Stable)
NA	Invoice Discounting	NA	NA	NA	16.00	[ICRA]A- (Stable)
NA	Letter of Credit	NA	NA	NA	3.00	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	12.00	[ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	13.52	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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